



**TOWNSHIP OF SOMERSET, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**YEAR ENDED JUNE 30, 2005**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Township of Somerset, Michigan</b>	County <b>Hillsdale</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>9/1/05</b>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Osbourne, March, Condon &amp; Co., P.C.</b>			
Street Address <b>184 W. Carleton Road</b>		City <b>Hillsdale</b>	State <b>MI</b>
Accountant Signature <i>Stephen W. Brink, CPA</i>		ZIP <b>49242</b>	Date <b>9-19-05</b>

TOWNSHIP OF SOMERSET, MICHIGAN

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Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

Township Board  
Township of Somerset, Michigan  
Somerset Center, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset, Michigan, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2005 on our consideration of Township of Somerset, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages iii through viii and 20 through 22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

***Osbourne, March, Condon & Co P.C.***

Certified Public Accountants

Hillsdale, Michigan  
September 1, 2005

## TOWNSHIP OF SOMERSET, MICHIGAN

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### Management's Discussion and Analysis June 30, 2005

The following discussion and analysis of the financial performance for the Township of Somerset, Michigan (the "Township") provides an overview of the Township's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Township's financial statements.

#### **Financial Highlights**

The following represents the most significant financial highlights for the year ended June 30, 2005:

- Property taxes are the Township's single, largest source of revenue. The Township's tax base for fiscal year 2005 was equal to a taxable value of \$146,278,000, which represents an increase of \$2,550,000 or 1.77 percent.
- State-shared revenue, the second largest revenue source, was reduced by the State of Michigan by approximately \$6,060 this year. This represents a 2 percent decrease from the prior year.
- The Township was awarded an \$11,056 HAVA (Help America Vote Act) Grant by the State of Michigan for the purchase of two optical scan voting units for the two precincts in Somerset Township.
- The Township acquired a "Township Marquee" for announcements and notices totaling \$8,310.

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township of Somerset, Michigan's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business, and therefore, are prepared using the accrual basis of accounting. These statements provide a long-term view of the Township's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.
- The *statement of activities* presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and state shared revenues and earned but unused sick and vacation leave).

**Overview of the Financial Statements (Concluded)**

**Government-wide financial statements (concluded).** The governmental activities of the Township include general government, public safety, highways and roads, capital improvements, and parks and recreation.

The government-wide financial statements can be found on pages 1-2 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township of Somerset, Michigan, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Township's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Township's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township of Somerset, Michigan maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Roads Fund and Fire Fund all of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation and are comprised of the Police Fund, Parks and Recreation Fund, Cemetery Perpetual Care Permanent Fund, Debt Retirement Fund, and the Capital Improvement Fund.

The Township adopts an annual appropriated budget for all its funds. Budgetary comparison schedules have been provided for the General, Roads, and Fire Funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 3-6 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government, such as the Tax Fund, where property taxes are collected and disbursed on behalf of and to other local units of government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support Township of Somerset, Michigan's own programs. The basic fiduciary fund financial statements can be found on page 7 of this report.

**Financial Analysis of the Township as a Whole**

The Township's net assets increased by approximately 10.3 percent from a year ago, increasing from \$1.8 million to \$2 million.

The increase in net assets of governmental activities in the amount of \$188,936 is primarily due to (1) the overall increase in revenue and reduction in Township spending, which is evidenced by the fact that actual spending was less than budget, (2) the reduction in long-term obligations, and (3) restatement of beginning net assets in the amount of \$59,677 for prior year adjustments.

The following table shows, in a condensed format, the net assets of the Township of Somerset, Michigan as of June 30, 2005 and 2004.

**TABLE 1 – Township of Somerset, Michigan's Net Assets**

	GOVERNMENTAL ACTIVITIES	
	2005	2004
Assets		
Current assets	\$ 920,736	\$ 741,413
Capital assets	935,546	954,040
Other non-current assets	310,255	315,566
Total Assets	<u>\$ 2,166,537</u>	<u>\$ 2,011,019</u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities	\$ 94,735	\$ 87,653
Long-term liabilities	52,000	92,500
Total Liabilities	<u>\$ 146,735</u>	<u>\$ 180,153</u>
Net Assets:		
Invested in capital – net of related debt	\$ 920,504	\$ 911,158
Restricted	50,891	66,069
Unrestricted	1,048,407	853,639
Total Net Assets	<u>\$ 2,019,802</u>	<u>\$ 1,830,866</u>
Total Liabilities and Net Assets	<u>\$ 2,166,537</u>	<u>\$ 2,011,019</u>



# TOWNSHIP OF SOMERSET, MICHIGAN

## Management's Discussion and Analysis June 30, 2005

### Financial Analysis of the Township as a Whole (Concluded)

The following is the government-wide results of operations for the fiscal year ended June 30, 2005:

The Township's total revenues were \$903,667 for the current year, of which 45% was comprised of property taxes. Charges for services accounted for another 16%. State-shared revenues represent 32% and operating and capital grants and contributions totaled 2%. Other revenues (donations, interest, etc.) were 5%. The total cost of all programs and services at June 30, 2005 was \$785,397. Township expenses cover a wide range of services. For the current fiscal year the Township's expenses were comprised of 52% for general government, 27% for public safety, 5% for capital outlay, 3% for parks and recreation, and 1% for highways, roads and debt service.

**TABLE 2 – Changes in Township of Somerset, Michigan's Net Assets**

	GOVERNMENTAL ACTIVITIES	
	2005	2004
Revenue		
Program Revenue		
Charges for services	\$ 144,312	\$ 141,273
Operating grants and contributions	10,965	372,646
Capital grants and contributions	11,056	11,056
General Revenue		
Property taxes	405,299	365,138
State-shared revenues	288,184	294,244
Interest	13,914	6,160
Donations	5,574	2,175
Other	18,521	16,549
Total Revenue	<u>\$ 897,825</u>	<u>\$ 1,198,185</u>
Program Expenses		
General government	\$ 378,942	\$ 353,561
Public safety	220,494	224,589
Highways and roads	60,412	66,348
Parks and recreation	26,620	35,480
Capital outlay	9,000	341,399
Depreciation (unallocated)	73,098	76,920
Total Program Expenses	<u>\$ 768,566</u>	<u>\$ 1,098,297</u>
Change in Net Assets	<u>\$ 129,259</u>	<u>\$ 99,888</u>

**Governmental Activities**

In fiscal year 2005, the Township experienced a decrease in its State-shared revenues in the amount of \$6,060 due to statewide economic conditions. In total the Township's revenues decreased by \$294,518 over all because in prior year the Township received a \$323,000 grant from the Department of Environmental Quality that was received in the current fiscal year.

During the year the Township was awarded an \$11,056 towards the purchase of a new voting system that was state mandated through HAVA (Help America Vote Act). The Township received two electronic tabulators for its two precincts that were purchased through Hillsdale County Clerk's office.

**Financial Analysis of the Township's Funds**

The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages, grants, contributions or capital projects. The Township's major funds for 2004/2005 consisted of the following funds: General, Fire, and Road.

The General Fund is the main operating fund of the Township. Total General Fund revenues and transfers for fiscal year 2004/2005 increased in light of the cuts in State-shared revenues. The increase in revenues is due to higher property taxes, charges for services, permits, and other miscellaneous revenues.

General Fund expenditures increased due to increases in general government costs. However, actual expenditures were less than the final amended budget. General Fund transfers to the Police Department were approximately \$21,000 higher due to the costs of funding an additional full time police officer.

The other significant increase occurred in the Capital Improvement Fund due to computer system upgrades and replacement of the roof for the Township administrative office building.

As of June 30, 2005 the fund balance in the General Fund was \$526,114 representing over 100% of General Fund operating expenditures and transfers.

**General Fund Highlights**

The General Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the Township government. The budget is essentially a "maintenance" budget, which means it increases modestly from year to year. The budget is monitored closely and amended periodically. The result is that actual revenues and expenses are usually within 5 percent of budgeted amounts. However, for fiscal year ended June 30, 2005 the township was within 10 to 15 percent of its budgeted amounts.

**Capital Asset and Debt Administration**

At the end of fiscal year 2005, the Township had approximately \$935,546 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, vehicles, etc. There is no related infrastructure reported in the year end net capital investment. The Township elected to follow the method of prospective reporting of infrastructure assets provided in the new reporting pronouncement.

**Capital Asset and Debt Administration (Concluded)**

The Township continues to pay down debt obligations related to capital investments. At June 30, 2005 debt related to capital assets totaled \$15,041. These debt obligations are scheduled to be paid off by February 1, 2006.

The Township also funds fire rescue equipment replacements by setting aside cash in the Fire Fund. The Township properly maintains existing equipment and carefully plans for equipment replacements to avoid burdening taxpayers with additional debt millage to replace existing equipment.

**Economic Factors and Next Year's Budgets and Rates**

The Township's budget for 2005/2006 is based on the same property tax rate as was for year ended June 30, 2005. This can be accomplished because of the continuous growth in the tax base. However, because of the impact of the State-shared revenue cuts, the Township will continue to watch its budget very close.

The 2005/2006 budget includes monies designated in the Capital Improvement Fund for improvements to the Township offices/Fire Department building to include re-keying main entrances and installing new doors. Additionally, a new phone system for Township offices is scheduled to be installed during this budget year.

Also during the 2005/2006 budget year, the Township will be conducting an investigative/feasibility study for sewers. We are expecting this to be a considerable cost, and they will be choosing an Engineering Firm to conduct the water quality portion of this study first.

**Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements, we welcome you to contact the Township Clerk's office located at 12715 East Chicago Road, Somerset, Michigan 49282.

## TOWNSHIP OF SOMERSET, MICHIGAN

## STATEMENT OF NET ASSETS

JUNE 30, 2005

GOVERNMENTAL  
ACTIVITIES

## ASSETS

## Current Assets:

Cash	\$ 612,033
Investments	179,956
Accounts receivable	4,447
Special assessment receivable, current portion	2,935
Due from other funds	303
Due from other governmental units	<u>121,062</u>

Total Current Assets	<u>\$ 920,736</u>
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## Noncurrent Assets:

Special assessment receivable, net of current portion	\$ 19,755
Grave sites available for sale	290,500
Capital assets	1,553,258
Less: accumulated depreciation	<u>(617,712)</u>

Total Noncurrent Assets	<u>\$ 1,245,801</u>
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TOTAL ASSETS	<u><u>\$ 2,166,537</u></u>
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## LIABILITIES AND NET ASSETS

## Current Liabilities:

Accounts payable	\$ 48,750
Current portion, long-term debt	41,041
Compensated absences	4,476
Other accrued liabilities	<u>468</u>

Total Current Liabilities	<u>\$ 94,735</u>
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## Noncurrent Liabilities:

Long-term debt, net of current portion	<u>\$ 52,000</u>
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TOTAL LIABILITIES	<u>\$ 146,735</u>
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## Net Assets:

Invested in capital assets, net of related debt	\$ 920,504
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## Restricted :

Metro Act expenditures	22,479
Special assessment - road improvements	27,544
Police training	354

## Cemetery perpetual care:

Nonexpendable	500
Expendable	14

Unrestricted	<u>1,048,407</u>
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Total Net Assets	<u>\$ 2,019,802</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,166,537</u></u>
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See accompanying notes to the basic financial statements.

## TOWNSHIP OF SOMERSET, MICHIGAN

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

	EXPENSES	PROGRAM REVENUES			GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
GOVERNMENTAL ACTIVITIES					
General government	\$ 378,942	\$ 136,355	\$	\$ 11,056	\$ (231,531)
Public safety	220,494	7,212	500		(212,782)
Highways and roads	60,412		10,465		(49,947)
Parks and recreation	26,620	745			(25,875)
Capital outlay	9,000				(9,000)
Depreciation (unallocated)	73,098				(73,098)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 768,566</u>	<u>\$ 144,312</u>	<u>\$ 10,965</u>	<u>\$ 11,056</u>	<u>\$ (602,233)</u>
GENERAL REVENUES					
Property taxes					\$ 405,299
State-shared revenues					288,184
Interest					13,914
Donations					5,574
Other					18,521
TOTAL GENERAL REVENUES					<u>\$ 731,492</u>
CHANGE IN NET ASSETS					\$ 129,259
NET ASSETS - BEGINNING, RESTATED					<u>1,890,543</u>
NET ASSETS - ENDING					<u>\$ 2,019,802</u>

See accompanying notes to the basic financial statements.

## TOWNSHIP OF SOMERSET, MICHIGAN

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2005

	GENERAL FUND	ROADS	FIRE
<b>ASSETS</b>			
Cash and cash equivalents	\$ 246,185	\$ 222,665	\$ 24,702
Investments	179,956		
Accounts receivable	3,697		
Due from other funds	12,001	3,727	6,718
Due from other government units	110,096	10,465	
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 551,935</u>	<u>\$ 236,857</u>	<u>\$ 31,420</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 6,260	\$ 37,925	\$
Other accrued liabilities	100		
Due to other funds	19,461	11,698	
	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>\$ 25,821</u>	<u>\$ 49,623</u>	<u>\$</u>
Fund Balances:			
Reserved for:			
Metro Act expenditures	\$	\$ 22,479	\$
Road improvements		27,544	
Police training			
Cemetery perpetual care			
Unreserved:			
Designated			48,000
Undesignated	526,114	137,211	(16,580)
	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>\$ 526,114</u>	<u>\$ 187,234</u>	<u>\$ 31,420</u>
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 551,935</u>	<u>\$ 236,857</u>	<u>\$ 31,420</u>

See accompanying notes to the basic financial statements.

OTHER  
NON MAJOR  
GOVERNMENTAL  
FUNDS

\$ 118,481

750

9,016

501

\$ 128,748

\$ 4,565

368

\$ 4,933

\$

354

514

122,947

\$ 123,815

\$ 128,748

TOTAL  
GOVERNMENTAL  
FUNDS

\$ 612,033

179,956

4,447

31,462

121,062

\$ 948,960

\$ 48,750

468

31,159

\$ 80,377

\$ 22,479

27,544

354

514

48,000

769,692

\$ 868,583

\$ 948,960

TOWNSHIP OF SOMERSET, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
WITH THE STATEMENT OF NET ASSETS

JUNE 30, 2005

GOVERNMENTAL FUND BALANCES \$ 868,583

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources, and  
are not reported in the funds

The cost of the capital assets is \$ 1,553,258  
Accumulated depreciation is (617,712)

935,546

Receivables are expected to be collected in future years and are not available to pay for current  
year expenditures

22,690

Cemetery grave sites available for sale are not current financial resources

290,500

Long-term liabilities are not due and payable in the current period and are not reported  
in the funds:

Bank notes (15,041)  
Compensated absences (4,476)  
Other long-term obligations (78,000)

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 2,019,802

See accompanying notes to the basic financial statements.



## TOWNSHIP OF SOMERSET, MICHIGAN

## GOVERNMENTAL FUNDS

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2005

	GENERAL FUND	ROADS	FIRE
REVENUES			
Taxes	\$ 118,224	\$ 41,661	\$ 106,342
State revenues	299,240	10,465	
Charges for services	64,725		
Licenses and permits	46,846		
Fines, fees, and forfeits	16,804		
Donations	2,817		50
Interest	8,059	2,926	479
Rental revenue	7,980		
Other	21,646		
TOTAL REVENUES	<u>\$ 586,341</u>	<u>\$ 55,052</u>	<u>\$ 106,871</u>
EXPENDITURES			
General government	\$ 413,474	\$	\$
Public safety			119,316
Highways and roads		60,412	
Parks and recreation			
Debt service:			
Principal retirement			
Interest			
Capital outlay			
TOTAL EXPENDITURES	<u>\$ 413,474</u>	<u>\$ 60,412</u>	<u>\$ 119,316</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 172,867</u>	<u>\$ (5,360)</u>	<u>\$ (12,445)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$	\$ 67,544	\$ 53,153
Operating transfers (out)	(99,623)		
Payments on long-term debt			(27,952)
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (99,623)</u>	<u>\$ 67,544</u>	<u>\$ 25,201</u>
NET CHANGE IN FUND BALANCE	\$ 73,244	\$ 62,184	\$ 12,756
FUND BALANCES - BEGINNING, RESTATED	<u>452,870</u>	<u>125,050</u>	<u>18,664</u>
FUND BALANCES - ENDING	<u>\$ 526,114</u>	<u>\$ 187,234</u>	<u>\$ 31,420</u>

See accompanying notes to the basic financial statements.

OTHER NON MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 141,789	\$ 408,016
500	310,205
	64,725
1,399	48,245
5,813	22,617
2,707	5,574
2,450	13,914
745	8,725
	<u>21,646</u>
<u>\$ 155,403</u>	<u>\$ 903,667</u>
\$ 98,869	\$ 413,474
	218,185
26,620	60,412
	26,620
25,000	25,000
1,662	1,662
<u>40,044</u>	<u>40,044</u>
<u>\$ 192,195</u>	<u>\$ 785,397</u>
<u>\$ (36,792)</u>	<u>\$ 118,270</u>
\$ 31,470	\$ 152,167
(52,544)	(152,167)
<u>(1,382)</u>	<u>(29,334)</u>
<u>\$ (22,456)</u>	<u>\$ (29,334)</u>
\$ (59,248)	\$ 88,936
183,063	779,647
<u>\$ 123,815</u>	<u>\$ 868,583</u>

TOWNSHIP OF SOMERSET, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

JUNE 30, 2005

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 88,936

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures and in the statement of activities these costs are allocated over their estimated useful lives as depreciation

Depreciation expense	\$ (73,098)	
Capital outlay	<u>42,100</u>	(30,998)

Repayment of bank notes, revenue bonds, and other long-term obligations are expenditures in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	78,841
--	--------

Increase in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	(1,677)
--	---------

Receipts for the sale of cemetery grave sites are revenue in the governmental funds, but the receipts reduce cemetery graves sites available for sale in the governmental activities	(3,125)
--	---------

Receipts collected on special road assessments are revenues in the governmental funds, but the receipts reduce long-term receivables in the governmental activities	<u>(2,718)</u>
---	----------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 129,259</u>
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See accompanying notes to the basic financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN  
FIDUCIARY FUND  
STATEMENT OF ASSETS AND LIABILITIES  
JUNE 30, 2005

	TAX COLLECTION AGENCY FUND
ASSETS	
Cash	<u>\$ 303</u>
LIABILITIES	
Due to other funds	<u>\$ 303</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Somerset, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

The Township of Somerset (the "Township") was organized in 1837. The Township operates under a part-time elected board and provides the following services to its residents: Public Safety - police and fire, Parks and Recreation, Public Improvements, and General Administrative Services.

ECONOMIC DEPENDENCY

The Township is economically dependent on the State of Michigan for state shared revenues. Absent allocations from the State, the Township's operating results would report expenditures exceeding revenues in its General Fund. Furthermore, the General Fund would be in a deficit position within a two year period continuing the services the Township currently provides.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Township. For the most part, the effect of inter-fund activity has been removed from these statements. All the Township's government-wide activities are considered governmental activities, which are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND  
FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The effect of inter-fund activity has been eliminated from the government-wide financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND  
FINANCIAL STATEMENT PRESENTATION (CONCLUDED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and State-shared revenues. All other revenue items are considered to be available only when cash is received by the Township.

The Township reports the following major governmental funds:

The *General Fund* is the general operating fund of the Township. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

The *Road Fund* is used to account for road maintenance costs. The costs are funded through the collection of property taxes and appropriations from the General Fund.

The *Fire Fund* is used to account for fire protection services. The costs are funded through the collection of property taxes and appropriations from the General and Capital Improvement Funds.

Additionally, the Township reports the following fund types:

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

*Capital Improvement Fund* accounts for the acquisition or construction of major capital facilities and equipment. The costs are funded through the collection of property taxes and appropriations from the General Fund.

*Debt Retirement Fund* accounts for the accumulation of property tax collections for, and the payment of, long-term debt, principal, interest and related costs.

*Permanent Funds* account for assets held by the Township pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund. The Township's permanent fund is a Cemetery Memorial Fund. This fund is reported as another non-major governmental fund.

*Fiduciary Funds* are used to account for assets held in a trustee or agency capacity for others and therefore are not available to support Township operations. The Township's only Fiduciary Fund type is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are not included in the government-wide statements. The Township presently collects and distributes property taxes on behalf of and to other local units of government through its agency fund.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BANK DEPOSITS

All accounts and deposits with original maturity of three months or less from date of acquisition are considered to be cash.

RECEIVABLES AND PAYABLES

Outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

All receivables are reported at their net realizable values.

CAPITAL ASSETS

Capital assets that include land, buildings, improvements, equipment and vehicles are reported in the government-wide financial statements. The Township defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend the life of an asset are not capitalized but rather expensed in the period incurred.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	YEARS
Buildings	40
Improvements	15-40
Equipment	10-20
Furniture and library books	3-5
Vehicles	3-20

CEMETERY GRAVE SITES

The Township has available for sale 2,323 cemetery grave sites. These grave sites are priced at \$125 per grave site. At June 30, 2005 the grave sites are valued at \$290,500 and reported as non-current assets in the statement of net assets.

COMPENSATED ABSENCES

Full time employees are eligible to earn vacation and sick/personal leave time. Vacation leave time is earned based on the number of service years employed. Sick/leave is earned annually and is limited to six days per year. All leave time earned is available to the employees on their anniversary hire date. Leave time is not allowed to accumulate and must be used prior to the employee's anniversary date. At June 30, 2005 the balance of unused leave exceeded paid leave time in the amount of \$4,476.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM OBLIGATIONS

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PROPERTY TAX

The Township of Somerset, Michigan bills and collects property taxes and distributes them to other local units of government. Properties are assessed as of December 31, and the related real property taxes are levied and become a lien on July 1 of the following year for summer taxes and December 31 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 28, respectively. Delinquent taxes are turned over to the County and added to the County tax roll. The County remits all uncollected delinquent real property tax to the Township by June 30. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

BUDGETS AND BUDGETARY ACCOUNTING

The Township's budgetary procedures in establishing budgetary data reflected in the financial statements are as follows:

1. The Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is usually enacted through passage of a resolution.



TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

BUDGETS AND BUDGETARY ACCOUNTING (CONCLUDED)

4. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Capital Project Fund.
5. Budgets for the General, Special Revenue, and Capital Project Funds are adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by the Township Board. Budgets for the General Fund are adopted on a functional basis.
6. Any excess amount budgeted for expenditures are covered by a carryover in fund balance from previous years.
7. The budgeted revenues and expenditures for governmental fund types are presented in the statement of revenues, expenditures and changes in fund balances - budget and actual - all governmental fund types, including any authorized amendments to the original budget as adopted.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2005.

NOTE 2: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

At year end, the deposits were reported in the basic financial statements in the following categories:

	GOVERNMENTAL ACTIVITIES	FIDUCIARY FUNDS	TOTAL GOVERNMENT
Cash	\$ 561,142	\$ 303	\$ 561,445
Cash - restricted	50,891		50,891
Investments	179,956		179,956
	<u>\$ 791,989</u>	<u>\$ 303</u>	<u>\$ 792,292</u>

Restricted cash is comprised of fund balance reserves disclosed in Note 8.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

NOTE 2: CASH AND INVESTMENTS (CONCLUDED)

The breakdown between cash and investments for the Township are as follows:

	TOTAL GOVERNMENT
Cash (checking accounts, savings accounts and certificates of deposits)	\$ 612,036
Money market fund	179,956
Petty cash	<u>300</u>
Total	<u>\$ 792,292</u>

Deposits

The Township's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$816,980. Of that amount, \$330,799 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

Investments

Investments are normally categorized to give an indication of the level of risk assumed by the Township. As of June 30, 2005, the Township held investments in a money market fund, totaling \$179,956, which was rated AAA by Standard & Poor's rating service. Additionally, there is no custodial risk because the fund is not evidenced by securities that exist in physical or book entry form.

The investment policy adopted by the Township Council is in accordance with Public Act 196 of 1997.

NOTE 3: SPECIAL ASSESSMENT RECEIVABLE

In year ended June 30, 2001 the Township provided a road paving project at the request of local property owners residing in the Township. In exchange for the new paved road the property owners agreed to a special property tax assessment to pay for the project. The cost of the project totaled \$52,000 to be collected over ten years. Property owners are assessed \$125 per parcel plus interest at 8% annually. The assessment continues through the year ending June 30, 2010. The special assessment receivable is reported in the statement of net assets.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 3: SPECIAL ASSESSMENT RECEIVABLE (CONCLUDED)

Future property tax assessments are as follows:

JUNE 30	PRINCIPAL	INTEREST	TOTAL
2006	\$ 3,691	\$ 2,159	\$ 5,850
2007	4,750	1,000	5,750
2008	4,750	890	5,640
2009	4,750	510	5,260
2010	<u>4,750</u>	<u>54</u>	<u>4,804</u>
	<u>\$ 22,691</u>	<u>\$ 4,613</u>	<u>\$ 27,304</u>

NOTE 4: CAPITAL ASSETS

	BALANCE JULY 1, 2004	ADDITIONS	DISPOSALS	BALANCE JUNE 30, 2005
<u>GOVERNMENTAL ACTIVITIES</u>				
Capital assets not being depreciated:				
Land	\$ 226,000	\$	\$	\$ 226,000
Capital assets being depreciated:				
Buildings and improvements	541,230	25,094		566,324
Machinery and equipment	207,180			207,180
Vehicles	462,162			462,162
Office equipment & furnishings	<u>74,586</u>	<u>17,006</u>		<u>91,592</u>
Subtotal	<u>\$ 1,511,158</u>	<u>\$ 42,100</u>	<u>\$</u>	<u>\$ 1,553,258</u>
Accumulated depreciation:				
Buildings and improvements	\$ 234,018	\$ 17,784	\$	\$ 251,802
Machinery and equipment	59,242	14,626		73,868
Vehicles	210,190	36,613		246,803
Office equipment & furnishings	<u>41,164</u>	<u>4,075</u>		<u>45,239</u>
Subtotal	<u>\$ 544,614</u>	<u>\$ 73,098</u>	<u>\$</u>	<u>\$ 617,712</u>
Net Capital Assets	<u>\$ 966,544</u>	<u>\$ (30,998)</u>	<u>\$</u>	<u>\$ 935,546</u>

Unallocated depreciation expense charged to governmental activities totaled \$73,098.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

NOTE 5: LONG-TERM DEBT

Long-term debt at June 30, 2005 is comprised of the following:

Southern Michigan Bank and Trust, secured by fire truck, payable in monthly installments of \$2,330, with interest at 5%, through February 1, 2006	\$ 15,041
Addison Hospital Authority, payable in monthly installments of \$2,167, through June 30, 2008	<u>78,000</u>
	\$ 93,041
Less: current portion of long-term debt	<u>41,041</u>
TOTAL LONG-TERM DEBT	<u>\$ 52,000</u>

Cash paid for interest and expensed during the year totaled \$3,156 and is reported as a direct function expense.

The following is a summary of changes in long-term debt:

	BALANCE JULY 1, 2004	ADDITIONS	REDUCTIONS	BALANCE JUNE 30, 2005
<u>GOVERNMENTAL ACTIVITIES</u>				
Kansas State Bank – capital lease	\$ 1,382	\$	\$ 1,382	\$
Southern Michigan Bank & Trust	41,500		26,459	15,041
Addison Hospital Authority	104,000		26,000	78,000
Special Assessment Revenue Bond	25,000		25,000	
Total Governmental Activities	<u>\$ 171,882</u>	<u>\$</u>	<u>\$ 78,841</u>	<u>\$ 93,041</u>

The following is a schedule of principal and interest maturities:

	<u>GOVERNMENTAL ACTIVITIES</u>		
	PRINCIPAL	INTEREST	TOTAL
2006	\$ 41,041	\$ 500	\$ 41,541
2007	26,000		26,000
2008	26,000		26,000
	<u>\$ 93,041</u>	<u>\$ 500</u>	<u>\$ 93,541</u>

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 6: INTERFUND LOAN

During the 2001 year the Township's General Fund loaned the Road Fund \$30,000 towards a paving project disclosed in NOTE 4. The Road Fund is required to repay the principal amount loaned plus 8% interest back to the General Fund from amounts collected on the special assessment each year until fully paid by 2010. At June 30, 2005 the outstanding obligation to the General Fund was \$11,698 comprised of a principal balance of \$10,832 and accrued interest of \$866.

NOTE 7: FUND EQUITIES

Reserved and designated fund balances at June 30, 2005 were as follows:

<u>Fund Balance</u>	RESERVED	DESIGNATED
Police Fund		
Police training – Act 302	\$ 354	\$
Road Fund		
Metro Act funding	22,479	
Special assessment – road improvements	27,544	
Fire Fund		
Equipment replacement		48,000
Cemetery Permanent Fund		
Cemetery perpetual care		
Nonexpendable	500	
Expendable	14	
	<u>\$ 50,891</u>	<u>\$ 48,000</u>

Reserved

- Act 302 monies received from the State of Michigan are restricted for police training.
- Metro Act monies received from the State of Michigan are restricted for right-of-way improvements and/or street lighting costs.
- Special assessment monies collected in the Debt Retirement Fund for the repayment of a bond related to the construction of a road exceeded the payoff of the bond obligation. These monies were transferred from the Debt Retirement Fund in to the Road Fund for future improvements towards the road that was constructed with the bond proceeds.
- Cemetery perpetual care monies are restricted into perpetuity whereby only interest earnings may be expended towards cemetery maintenance costs.

Designated

- The Township Board designated Fire Fund cash and equity as set aside for future equipment replacements.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

NOTE 8: OPERATING TRANSFERS

Interfund transfers for the current year were as follows:

Governmental Activities

Transfers out from:	Transfers in to:	
General Fund	Fire Fund	\$ 28,153
General Fund	Road Fund	40,000
General Fund	Police Fund	31,470
Debt Retirement Fund	Road Fund	27,544
Capital Improvement Fund	Fire Fund	<u>25,000</u>
	Total	<u>\$ 152,167</u>

All transfers between Township funds are approved appropriations in the 2004-2005 budgets.

- Transfers from the General Fund subsidize other fund's operations.
- Capital Improvement Fund transfer to the Fire Fund provided funding for equipment purchases during the year.
- Transfer from the Debt Retirement Fund to the Road Fund represents remaining cash in excess of bond obligation payoff to be expended on road improvements of road constructed with bond proceeds.

NOTE 9: RISK MANAGEMENT

The Township of Somerset, Michigan is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, unemployment benefits, as well as medical and workmen's compensation benefits provided to employees. The Township of Somerset, Michigan has purchased commercial insurance for general liability on buildings and property, equipment damage and theft, employee theft, and limited tort claims for specific Township of Somerset, Michigan facilities or events.

The Township continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 10: CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, Township management does not believe such disallowances, if any, will be material to the financial position of the Township.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

NOTE 11: INTERFUND RECEIVABLES AND PAYABLES

The following are interfund receivables (due from) and interfund payables (due to), reported in governmental activities and fiduciary fund:

DUE FROM - COLLECTABLE BY:		DUE TO - PAYABLE BY:	
a.	General Fund	Tax Agency Fund	\$ 303
b.	General Fund	Road Fund	<u>11,698</u>
			<u>\$ 11,701</u>
c.	Police Fund	General Fund	\$ 4,490
d.	Fire Fund	General Fund	6,718
e.	Capital Improvement Fund	General Fund	2,263
f.	Road Fund	General Fund	3,727
g.	Parks Fund	General Fund	<u>2,263</u>
			<u>\$ 19,461</u>
a.	For unremitted administration fees, penalties, and interest.		
b.	For loan made by the General Fund to the Road Fund.		
c. - g.	For property taxes from 2004 county tax settlement.		

NOTE 12: IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

For the year ended June 30, 2005 the Township implemented the following Governmental Accounting Standards Board pronouncements:

Statements

No. 40 - *Deposit and Investment Risk Disclosures*

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
JUNE 30, 2005

NOTE 13: CHANGES IN ACCOUNTING POLICIES – FUND BALANCE AND NET ASSET RESTATEMENTS

During the year the Township changed its accounting policy in reporting state shared revenues and made a correction to an error in the omission of equipment in previous year ended June 30, 2004 basic financial statements.

Capital Asset

During the year the Township identified that it inadvertently omitted equipment in the net amount of \$12,504 (original cost of \$19,237 less accumulated depreciation of \$6,733) from its year ended June 30, 2004 basic financial statements. Therefore an increase in beginning net assets on the statement of activities was made in the amount of \$12,504.

General Fund

The Township receives revenue sharing money from the State of Michigan during the course of the year. The two final payments for the Township's fiscal year ending June 30 for the months March/April and May/June are received in July and August, respectively, in its following fiscal year. Historically, the Township has accrued the receipt of the March/April payment as revenue at June 30 but recorded the May/June payment received from the State of Michigan on the cash basis in the following fiscal year as revenue. The Township has always recognized equal number of payments from the State each year but the last payment has never been accrued. The net effect on the Township's financial statements, from one year to the next, resulting from reporting the final payment due from the state as revenue in the following fiscal year has been immaterial. However, the Township recognizes that proper accounting treatment is to recognize the May/June payment at June 30. Therefore, the Township has restated the following fund balances at June 30, 2005.

	FUND BALANCE JUNE 30, 2004	RESTATEMENT	FUND BALANCE JULY 1, 2004
General Fund	<u>\$ 405,697</u>	<u>\$ 47,173</u>	<u>\$ 452,870</u>

Government-Wide Financial Statements

The net effect of all the disclosed restatements to beginning net assets in the statement of activities is as follows:

	NET ASSETS JUNE 30, 2004	RESTATEMENT	NET ASSETS JULY 1, 2004
Governmental Activities	<u>\$ 1,830,866</u>	<u>\$ 59,677</u>	<u>\$ 1,890,543</u>



TOWNSHIP OF SOMERSET, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
GENERAL FUND

YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 101,060	\$ 101,060	\$ 118,224
State revenues	295,000	295,000	299,240
Charges for services	49,275	49,275	64,725
Licenses and permits	32,000	32,000	46,846
Fines, fees, and forfeits	17,500	17,500	16,804
Donations	2,100	2,100	2,817
Interest	2,000	2,000	8,059
Rental revenue	6,750	6,750	7,980
Other	15,650	15,650	21,646
TOTAL REVENUES	<u>\$ 521,335</u>	<u>\$ 521,335</u>	<u>\$ 586,341</u>
EXPENDITURES			
Township board	\$ 13,475	\$ 15,537	\$ 15,537
Supervisor	30,175	30,175	27,484
Elections	25,450	25,450	21,890
Assessor	62,350	62,350	65,864
Legal and accounting	25,150	25,150	14,379
Clerk	45,700	45,700	41,565
Board of review	2,175	2,175	1,568
Treasurer	47,300	47,300	40,747
MB offices	20,100	20,100	19,010
SCCR	10,250	10,250	6,692
JCB	19,400	19,400	10,964
Cemeteries	31,350	31,350	27,767
Social services	1,000	1,000	1,000
Building department	33,620	33,620	30,461
Drain expense	1,000	1,000	490
Street lights	4,500	4,500	5,542
Sewer ad-hoc committee	5,000	5,000	1,060
Underground storage tanks	3,800	3,800	702
Hospital services	26,000	26,000	26,000
Fireworks activities	7,000	7,000	5,871
Library	36,866	36,866	33,757
Planning and zoning	25,250	25,250	15,124
TOTAL EXPENDITURES	<u>\$ 476,911</u>	<u>\$ 478,973</u>	<u>\$ 413,474</u>
REVENUES OVER EXPENDITURES	<u>\$ 44,424</u>	<u>\$ 42,362</u>	<u>\$ 172,867</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers (out)	<u>\$ (199,576)</u>	<u>\$ (199,576)</u>	<u>\$ (99,623)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (155,152)</u>	<u>\$ (157,214)</u>	<u>\$ 73,244</u>
FUND BALANCE - BEGINNING, RESTATED	<u>452,870</u>	<u>452,870</u>	<u>452,870</u>
FUND BALANCE - ENDING	<u><u>\$ 297,718</u></u>	<u><u>\$ 295,656</u></u>	<u><u>\$ 526,114</u></u>

REQUIRED SUPPLEMENTAL INFORMATION

TOWNSHIP OF SOMERSET, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND - ROADS

YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 39,500	\$ 39,500	\$ 41,661
State revenues	1,000	1,000	10,465
Interest	<u>200</u>	<u>200</u>	<u>2,926</u>
TOTAL REVENUES	<u>\$ 40,700</u>	<u>\$ 40,700</u>	<u>\$ 55,052</u>
EXPENDITURES			
Wages and benefits	\$ 400	\$ 400	\$
Insurance	5,900	5,900	5,185
Road maintenance	74,300	74,300	54,357
Supplies	100	100	
Interest expense	<u></u>	<u></u>	<u>870</u>
TOTAL EXPENDITURES	<u>\$ 80,700</u>	<u>\$ 80,700</u>	<u>\$ 60,412</u>
REVENUES (UNDER) EXPENDITURES	<u>\$ (40,000)</u>	<u>\$ (40,000)</u>	<u>\$ (5,360)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 67,544</u>
NET CHANGE IN FUND BALANCE	\$	\$	\$ 62,184
FUND BALANCE - BEGINNING	<u>125,050</u>	<u>125,050</u>	<u>125,050</u>
FUND BALANCE - ENDING	<u><u>\$ 125,050</u></u>	<u><u>\$ 125,050</u></u>	<u><u>\$ 187,234</u></u>

TOWNSHIP OF SOMERSET, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND - FIRE

YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 103,000	\$ 103,000	\$ 106,342
Charges for services	5,000	5,000	
Donations	1,500	1,500	50
Interest	1,000	1,000	479
TOTAL REVENUES	<u>\$ 110,500</u>	<u>\$ 110,500</u>	<u>\$ 106,871</u>
EXPENDITURES			
Wages and benefits	\$ 87,600	\$ 87,600	\$ 83,320
Supplies	3,800	3,800	7,147
Maintenance	7,500	7,500	8,962
Insurance	12,000	12,000	10,178
Utilities	2,000	2,000	2,330
Telephone	3,000	3,000	1,786
Equipment	10,000	10,000	3,267
Education and training	4,000	4,000	1,116
Contracted labor	1,900	1,900	1,000
Miscellaneous	3,900	3,900	210
TOTAL EXPENDITURES	<u>\$ 135,700</u>	<u>\$ 135,700</u>	<u>\$ 119,316</u>
REVENUES (UNDER) EXPENDITURES	<u>\$ (25,200)</u>	<u>\$ (25,200)</u>	<u>\$ (12,445)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$ 53,153	\$ 53,153	\$ 53,153
Payments on long-term debt	(27,953)	(27,953)	(27,952)
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 25,200</u>	<u>\$ 25,200</u>	<u>\$ 25,201</u>
NET CHANGE IN FUND BALANCE	\$	\$	\$ 12,756
FUND BALANCE - BEGINNING	<u>18,664</u>	<u>18,664</u>	<u>18,664</u>
FUND BALANCE - ENDING	<u>\$ 18,664</u>	<u>\$ 18,664</u>	<u>\$ 31,420</u>

OTHER REPORTS



Osbourne, March, Condon & Co., P.C.

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TOWNSHIP OF SOMERSET, MICHIGAN

GAO GOVERNMENT AUDITING STANDARDS REPORT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Township Board  
Township of Somerset, Michigan  
Somerset Center, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Somerset, Michigan as of and for the year ended June 30, 2005, which collectively comprise the Township of Somerset, Michigan's basic financial statements and have issued our report thereon dated September 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township of Somerset, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Somerset, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that we have reported to management of Township of Somerset, Michigan in a separate letter dated September 1, 2005.

This report is intended for the information of the Township Board, management, and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

***Osbourne, March, Coudon & Co P.C.***

Certified Public Accountants

Hillsdale, Michigan  
September 1, 2005



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

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TOWNSHIP OF SOMERSET, MICHIGAN  
COMMUNICATION TO TOWNSHIP BOARD

September 1, 2005

Township Board  
Township of Somerset, Michigan  
Somerset Center, Michigan

We have audited the financial statements of Township of Somerset, Michigan for the year ended June 30, 2005, and have issued our report thereon dated September 1, 2005. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 1, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Township of Somerset, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application as necessary. The significant accounting policies used by Township of Somerset, Michigan are described in Note 1 to the financial statements.



Township management implemented the following Governmental Accounting Standards Board pronouncements as required in the industry of local units of government:

Statements

No. 40 – *Deposit and Investment Risk Disclosure*

We noted no transactions entered into by Township of Somerset, Michigan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the liability of compensated absences is based on the expected payout upon an employee's death or retirement. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction to the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township of Somerset, Michigan's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township of Somerset, Michigan, either individually or in the aggregate, indicate matters that could have a significant effect on the Township of Somerset, Michigan's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Somerset, Michigan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Township Board and management. It is not intended to be and should not be used by anyone other than these specified parties.

***Osbourne, March, Condon & Co P.C.***

Certified Public Accountants



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TOWNSHIP OF SOMERSET, MICHIGAN  
AUDITOR'S COMMENTS AND RECOMMENDATIONS

September 1, 2005

Township Board  
Township of Somerset, Michigan  
Somerset Center, Michigan

In planning and performing our audit of the financial statements of Township of Somerset, Michigan for the year ended June 30, 2005, we considered the Township's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 1, 2005, on the financial statements of Township of Somerset, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the Township's management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

*Osbourne, March, Condon & Co P.C.*  
Certified Public Accountants

### CAPITAL REPLACEMENT PLAN

Currently the Township does not have a formal written capital replacement plan. Such a plan would outline existing equipment on hand and the year the Township plans to replace the equipment. The capital cost by year could then be totaled and integrated into future budgets to reserve the necessary cash for capital replacements.

### DISBURSEMENT POLICY

During our audit we identified two disbursement policies; one for supplies and another for larger purchases such as equipment. We recommend that the Township create a single policy from the two existing ones.

### PURCHASE ORDER AND DISBURSEMENT REQUEST FORMS

We discovered during our audit that the Purchase Order and Disbursement Requisition Forms are not consistently used through out the year for purchases. We recommend the Township either incorporate the use of these forms into its disbursement policy or develop an alternative procedure for the request and approval of Township purchases.

### TAX ACCOUNT DISBURSEMENTS

Historically the Township Board has not reviewed and approved tax account check disbursements as is the policy for Township operating check disbursements. Currently the Township relies on the annual audit and the local units of government to identify any errors. We encourage the Board to review this accounting function and assess the risk of potential error resulting from unapproved tax disbursements. If the Township concludes that there is risk of error, we recommend the development and implementation of policies and procedures to mitigate the risk.

### DUPLICATE ACCOUNTING SYSTEMS

#### Receipting

Historically, the Clerks office has collected daily cash receipts and issued hand prepared receipts from a receipt book. At the end of the day all the cash and prepared receipts are remitted to the Treasurer's office. The Treasurer then hand writes a duplicate receipt for each of the receipts received from the Clerk's office. This practice appears to be redundant.

We recommend the Clerk's office continue to receipt the collection of cash and remit daily receipts to the Treasurer's office as they have always done. The Treasurer's office should total the daily receipts by fund and list them as such on an internal receipt form. The internal receipt form should then be totaled and reconciled to the actual cash received from the Clerk's office. Upon completion, the Treasurer should sign the internal receipt form and give a copy to the Clerk's office for its records.

### DEPOSIT ACCOUNT

During our audit, we verified the Township's bank deposit accounts with its local financial institutions. Performing the audit procedure identified an account with Hillsdale County National Bank (HCNB) that is named *Township of Somerset Neighborhood Watch Group*. HCNB disclosed to us that the balance was a small dollar amount. This account was not reported in the Township's financial books. We inquired of the Township Clerk and Supervisor about their knowledge of the account. Township Supervisor disclosed to us that the account was opened by a group in the community to deposit fundraising monies to support its activities for a neighborhood watch.

DEPOSIT ACCOUNT (CONCLUDED)

We further investigated with the bank the nature of the account. The bank disclosed to us that the account was opened in June 2002 under the Township's employer identification number, or 38#, with the Township's administrative offices as the address on the account.

Our audit of the Township's June 30, 2005 financial statements and our audits of past years did not identify any deposits made to the account by a drafted check or bank transfer(s) to the account. Based on the information we obtained from the Township and Hillsdale County National Bank, it appears that monies deposited into the account are not related to the activity of the Township; i.e., not comprised of Township monies.

We recommend the Township work with the bank and the *Neighborhood Watch Group* to have the Township's employer identification number removed from the Group's bank account. Additionally, the Township should develop a policy relating to the use of its employer identification number.